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REBECCA NOBLE/ BLOOMBERG NEWS VantageScore 4.0 is an alternative scoring model that makes some borrowers look more creditworthy.

New Option May Cut Your Mortgage Rate

BY VERONICA DAGHER

One simple request might help you score a lower mortgage rate while costs are soaring.

You can now ask your lender to pull your credit score using VantageScore 4.0, if it hasn't already, or you can find a lender willing to do it. This is an alternative scoring model that makes some borrowers look more creditworthy.

The ability to do this is new. For years, government-backed mortgage giants Fannie Mae and Freddie Mac relied exclusively on classic FICO scores to evaluate creditworthiness and set mortgage rates, and most lenders still pull only FICO scores. This month, however, Fannie and Freddie's regulator said all lenders are free to use VantageScore 4.0 as well—and the lender can pick the one that results in the best rate.

Someone with a top-of-the-line FICO score won't see improvement by also pulling the VantageScore, but others might. If you do get a higher score, it could push you into a bucket of borrowers who are correspondingly charged lower fees by Fannie and Freddie to back the loan. (Fannie and Freddie stand behind a swath of the mortgage market and help set standards across the industry.)

When a lender evaluates both scoring models, roughly one in four home buyers ends up in a higher credit-score range, according to estimates by Nick Maciunas, managing director at JPMorgan Chase. For borrowers who jump a score bracket, Maciunas estimates that saving 1% in upfront loan adjustment fees translates to roughly a quarter-point drop in their interest rate.

That could be a significant difference with the average 30-year fixed mortgage rate at 6.76% last week, the highest level in more than a year, according to Freddie Mac. The Treasury yields that also help determine going mortgage rates and a host of other

borrowing costs have been on the rise recently, thanks to investor worries about inflation.

Chris Sbonek, president and chief executive of Mitten Mortgage Lending in Trenton, Mich., has been pulling both classic FICO and Vantage-Score 4.0 credit reports for his clients since United Wholesale Mortgage—one of his primary wholesale lenders—introduced the option.

Sbonek has seen VantageScore 4.0 help qualify some borrowers who previously failed to qualify for a mortgage. In many cases, buyers who are already qualified are securing lower interest rates, he said. But the results are all over the place. For other borrowers, he's seen no substantial difference between VantageScore 4.0 and classic FICO, and in some cases FICO offers the higher score.

He gave the following example of how a borrower might benefit. On a \$400,000 loan, a borrower with a 680 classic FICO score might receive a 6.959% rate on a 30-year fixed mortgage. If that same buyer has a 740 VantageScore 4.0, Sbonek could qualify him or her for a 6.5% rate, saving the home buyer roughly \$44,000 in interest over 30 years.

Credit scores are measured as a number between 300 and 850, and VantageScore 4.0 tends to run higher than classic FICO, though it can differ by borrower. Fannie and Freddie's new pricing models factor in the differences by effectively subtracting 20 points from the VantageScore and then applying the same credit score buckets as FICO.

The two models evaluate credit differently. Classic FICO offers a snapshot at a single moment while VantageScore 4.0 analyzes 24 months of trended balance and pay-payment data. It also factors in alternative data like rent and utility payments and requires less credit history to generate a score.

When a mortgage lender pulls your classic FICO score or Vantage-Score 4.0, it traditionally pulls reports from all three credit bureaus and uses your middle score to help determine your rate. VantageScore was created as a joint venture by the three major credit bureaus—Equifax, Experian and TransUnion.

"Different scoring models use different methodologies, which is why consumers receive different scores or fall into different score ranges depending on the model being used," a FICO spokeswoman said.

The Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to approve Vantage-Score 4.0 for all lenders after previously giving the option to a smaller pool of them, including United Wholesale Mortgage and Rocket Mortgage. While credit scores are a major factor in the kind of interest rate you get on a loan, they are evaluated alongside income, assets and debt-to-income ratios.

Bill Banfield, chief business officer at Rocket Mortgage, said a home buyer with a longer history of maintaining low debt balances and paying bills on time may show a higher score with VantageScore 4.0, which can lead to better mortgage pricing.

VantageScore 4.0 has been used for years in auto loans and credit cards, but the company said it is too early in its rollout for mortgage originators to say whether it consistently produces higher scores across the board.

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